

# INGRAM, WALLIS & COMPANY

A PROFESSIONAL CORPORATION

*Certified Public Accountants*

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BRYAN, TEXAS 77802

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**August 1, 2001**

**Mr. Charles Cryan  
City of College Station  
P.O. Box 9960  
1101 Texas Avenue  
College Station, TX 77842-2499**

**Dear Mr. Cryan:**

In accordance with our proposal to provide professional services dated April 24, 1998 (as amended June 30, 1998), we are pleased to confirm our understanding of the services we are to provide the City of College Station, Texas for the years ended September 30, 2001 and 2002. We will audit the general purpose financial statements of the City of College Station, Texas (the "City") as of and for the years ended September 30, 2001 and 2002. We understand that the financial statements will be presented in accordance with the financial reporting model in effect prior to that described in GASB Statement No. 34. Also, the document we submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the general purpose financial statements:

1. Schedule of expenditures of federal awards.
2. Combining and individual fund and account group financial statements and schedules.

The document will also include the following additional information that will not be subject to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will disclaim an opinion:

1. Statistical Section.

## **Audit Objectives**

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the Mayor, Members of the City Council, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the financial statements or the Single Audit compliance opinion is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

## **Management Responsibilities**

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted

accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review on November 15 of each year.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include test of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements (whether caused by errors or fraud), illegal acts, or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements, immaterial illegal acts, or illegal acts that do not have a direct effect on the financial statements or major programs. However, we will inform you of any material errors that come to our attention and any fraud that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of

our audit, we will also require certain written representations from you about the financial statements and related matters.

### **Audit Procedures—Internal Controls**

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on the City's financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

As required by OMB Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

### **Audit Procedures—Compliance**

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of those procedures will be to express an opinion on the City's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

### **Audit Administration, Fees, and Other**

Ingram, Wallis & Company, P.C. agrees to and shall indemnify and hold harmless and defend the City, its officers, agents, and employees from and against any and all claims, losses, damages, causes of action, suits and liability of every kind, including all expenses of litigation, court costs, and attorney's fees, for injury to or death of any person, for damage to any property, or for any breach of contract, arising out of, or in connection with the work done by Ingram, Wallis & Company, P.C. under this agreement. In the event of personal injury to or death of Ingram, Wallis & Company, P.C.'s employees, such indemnity shall apply regardless of whether the claims, losses, damages, causes of actions, suits or liability arise in whole or in part from the negligence of the City. Such indemnity shall not apply, however, to liability rising from the personal injury, death, or property damage of persons other than Ingram, Wallis & Company, P.C. or its employees where such liability is caused by or results from the negligence of the City.

Ingram, Wallis & Company, P.C. assumes full responsibility for the work to be performed hereunder and hereby releases, relinquishes, and discharges the City, its officers, agents, and employees from all claims, demands, and causes of action of every kind and character, including the cost of defense thereof, for any injury to or death of any person (whether employees of either of the parties hereto or other third parties) and any loss of or damage to property (whether property of either of the parties, their employees, or other third parties) that is caused by or alleged to be caused by, arising out of, or in connection with Ingram, Wallis & Company, P.C.'s work to be performed hereunder. This release shall apply regardless of whether said claims, demands, and causes of action are covered, in whole or in part, by insurance and regardless of whether such loss, damage, injury, or death was caused in whole or in part by the negligence of the City.

Ingram, Wallis & Company, P.C. agrees to maintain the types and amounts of insurance required in this agreement throughout the term of the agreement. The following insurance policies shall be required:

1. Commercial General Liability
2. Un-Owned Automobile Liability
3. Workers' Compensation Insurance
4. Professional Liability

For each of these policies, Ingram, Wallis & Company, P.C.'s insurance coverage shall be primary insurance with respect to the City, its officials, employees and volunteers. Any insurance or self-

insurance maintained by the City, its officials, employees, and volunteers, shall be considered in excess of Ingram, Wallis & Company, P.C.'s insurance and shall not contribute to it. Certificates of insurance and endorsements shall be furnished to and approved by the City's representative at the time of execution of this agreement, attached hereto as Exhibit A. No term or provision of the indemnification provided by Ingram, Wallis & Company, P.C. to the City pursuant to this agreement shall be construed or interpreted as limiting or otherwise affecting the terms of the insurance coverage.

Ingram, Wallis & Company, P.C. shall include all subcontractors (if any) as additional insureds under its policies or shall furnish separate certificates and endorsements for each subcontractor. All coverages for subcontractors shall be subject to all of the requirements stated herein.

### **General Requirements Applicable to All Policies:**

- (a) Only insurance carriers licensed and admitted to do business in the State of Texas will be accepted.
- (b) Deductibles shall be listed on the certificate of insurance and are acceptable only on a "per occurrence" basis for property damage only.
- (c) "Claims made" policies will not be accepted, except for Professional Liability insurance.
- (d) Each insurance policy shall be endorsed to state that coverage shall not be suspended, voided, canceled, or reduced in coverage or in limits except after thirty (30) calendar days prior written notice has been given.
- (e) Upon request, certified copies of all insurance policies shall be furnished to the City.
- (f) The certificates of insurance shall be prepared and executed by the insurance company or its authorized agent. Each certificate shall contain the following provisions and warranties: (a) that the insurance company is licensed and admitted to do business in the State of Texas; (b) that the insurance policy is underwritten on forms provided by the Texas State Board of Insurance or ISO; (c) all endorsements and coverages according to the requirements of this agreement; (d) the form of notice of cancellation, termination, or change in coverage provisions; and (e) original endorsements affecting coverage required by this agreement.
- (g) The City of College Station, its officials, employees, and volunteers are to be added as "Additional Insureds" to the Commercial (Public) Liability and Non-Owned Business Automobile Liability Policies. The coverage shall contain no special limitations on the scope of protection afforded to the City, its officials, employees, and volunteers.

### **Commercial General Liability requirements:**

- (a) Coverage shall be written by a carrier with an "A:VIII" or better rating in accordance with the current Best Key Rating Guide.
- (b) Minimum Combined Single Limit of \$600,000 per occurrence for bodily injury and property damage.
- (c) Coverage shall be at least as broad as Insurance Service's Office Number CG 00 01.

- (d) No coverage shall be deleted from the standard policy without notification of individual exclusions being attached for review and acceptance.
- (e) The coverage shall include but not be limited to: premises/operations; independent contracts, products/completed operations, contractual liability (insuring the indemnity provided herein), and where exposures exist, “Explosion Collapse and Underground” coverage.

**Business Automobile Liability requirements:**

- (a) Coverage shall be written by a carrier with an “A:VIII” or better rating in accordance with the current Best Key Rating Guide.
- (b) Minimum Combined Single Limit of \$600,000 per occurrence for bodily injury and property damage.
- (c) The coverage shall include non-owned autos, and hired cars.

**Workers’ Compensation Insurance requirements:**

- (a) Employer’s Liability limits of \$100,000.00 for each accident is required.
- (b) “Texas Waiver of Our Right to Recover From Others Endorsement, WC 42 03 04” shall be included in this policy.
- (c) Texas must appear in Item 3A of the Worker’s Compensation coverage or Item 3C must contain the following: all States except those listed in Item 3A and the States of NV, ND, OH, WA, WV, and WY.

**Professional Liability requirements:**

- (a) Coverage shall be written by a carrier with a “A:VIII” or better rating in accordance with the current Best Key Rating Guide.
- (b) Minimum of \$500,000 per occurrence and \$500,000 aggregate.
- (c) Coverage must be maintained for two (2) years after the termination of this agreement.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any invoices selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide copies of our reports to the City; however, it is management’s responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors’ reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors’ reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The workpapers for this engagement are the property of Ingram, Wallis & Company, P.C. and constitute confidential information. However, we may be requested to make certain workpapers available to various federal and state funding agencies pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of Ingram, Wallis & Company, P.C. personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to federal and state funding agencies. The federal and state funding agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The workpapers for this engagement will be retained for a minimum of three years after the date the auditors' report is issued or for any additional period requested by the federal and state funding agencies. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers.

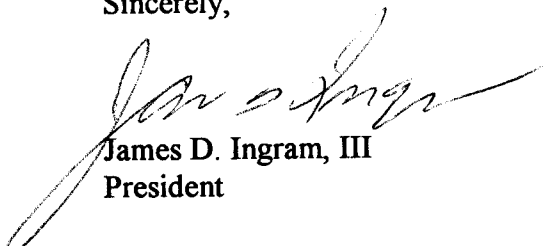
We expect to begin our audit on approximately November 15 of each year and to issue our reports no later than March 31 of the following year. Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, typing, postage, travel, copies, telephone, etc.). Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered periodically as work progresses and are payable within ten days of presentation.

We estimate our audit fees for 2001 and 2002 will be \$72,500.00 and 76,000.00 respectively plus out-of-pocket expenses. Either party has the right to terminate the engagement. If the audit is discontinued, for any reason, prior to the completion you will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. Our 1999 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the City and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,



James D. Ingram, III  
President



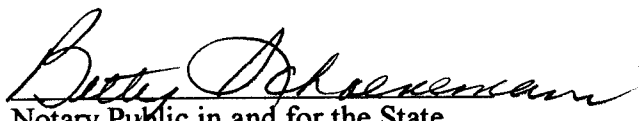
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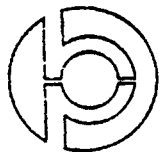
STATE OF TEXAS

COUNTY OF BRAZOS

ACKNOWLEDGEMENT

This instrument was acknowledged before me on the 2<sup>nd</sup> day of August, 2001, by James D. Ingram, III, in his capacity as President of Ingram, Wallis & Company, P.C., a Texas Corporation, on behalf of said corporation.

  
Notary Public in and for the State  
of Texas



September 23, 1999

To the Shareholders of  
Ingram Wallis & Company, P.C.

We have reviewed the system of quality control for the accounting and auditing practice of Ingram Wallis & Company, P.C. (the firm) in effect for the year ended June 30, 1999. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. In addition, the firm has agreed to comply with the membership requirements of the SEC Practice Section of the AICPA Division for CPA Firms (the Section). Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system and the Section's membership requirements based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Section. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures and with the membership requirements of the Section to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it or with the membership requirements of the Section. As is customary in a peer review, we are issuing a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. These matters were not considered to be of sufficient significance to affect the opinion expressed in this report.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Ingram Wallis & Company, P.C. in effect for the year ended June 30, 1999, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards. Also, in our opinion, the firm has complied with the membership requirements of the Section in all material respects.

Harper & Pearson Company

**RESPONSE:**

This letter correctly sets forth the understanding of the City of College Station, Texas.

**CITY OF COLLEGE STATION**

By: \_\_\_\_\_  
Lynn McIlhaney, Mayor

Date: \_\_\_\_\_

**ATTEST:**

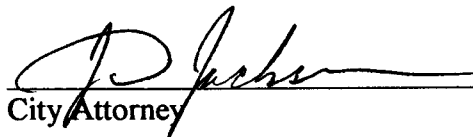
\_\_\_\_\_  
Connie Hooks, City Secretary

\_\_\_\_\_  
Date

**APPROVED:**

\_\_\_\_\_  
Thomas E. Brymer, City Manager

\_\_\_\_\_  
Date

  
\_\_\_\_\_  
City Attorney

\_\_\_\_\_  
8-31-01  
Date

\_\_\_\_\_  
Charles Cryan, Director of Fiscal Services

\_\_\_\_\_  
Date

**ATTEST:**

STATE OF TEXAS )

)

**ACKNOWLEDGEMENT**

COUNTY OF BRAZOS )

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2001, by Lynn McIlhaney, in her capacity as Mayor of City of College Station, a Texas home-rule municipality, on behalf of said municipality.

\_\_\_\_\_  
Notary Public in and for the State  
of Texas